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84-1438

No. 84-1438

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IN THE
# Supreme Court of the United States
OCTOBER TERM, 1984

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NATIONAL BUSINESS SYSTEMS, INC., *et al.*,
*Petitioners,*

v.

A.M INTERNATIONAL, INC., *et al.*,
*Respondents.*

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## PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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## QUESTIONS PRESENTED

1. Whether violation of a patent applicant's duty to disclose to the United States Patent and Trademark Office information material to the Commissioner's decision to grant a patent need only be proved by a preponderance of the evidence and not by clear and convincing evidence?

2. With what rigor are the Federal Courts obligated to enforce professional conduct standards and what is the standard of proof to be applied in determining whether such standards have been violated?

3. What significance, if any, should the District Court, in determining the validity or enforceability of a United States patent in an infringement suit, attach to patentability and inequitable procurement rulings of the Patent and Trademark Office on an application to reissue such patent?

## PARTIES TO THE PROCEEDING

This Petition seeks review of the decision of the Court of Appeals for the Seventh Circuit affirming the judgment of the District Court in consolidated actions Nos. 80 C-4915 and 81 C-6227. In addition to petitioner, National Business Systems, Inc., a corporation of Ontario, Canada (NBS Canada), 3220 Orlando Drive, Mississauga, Ontario L4V 1C6, Canada, the following parties were also plaintiffs in these consolidated cases:

No. 80 C-4915 — National Business Systems, Inc. (NBS/US)
200 Anderson Avenue
Moonachie, New Jersey 07074

George Heinrich, an individual,
d/b/a Heinrich Marketing Associates
5550 Marshall
Arvada, Colorado 80002

No. 81 C-6227 — National Business Systems, Inc. (NBS/US)
200 Anderson Avenue
Moonachie, New Jersey 07074

In addition to respondent, AM International, Inc., 111 East Buse Avenue, Mount Prospect, Illinois, the following are also defendants in No. 81 C-6227:

Bartizan Corporation — 24 Ashburton Avenue
Yonkers, New York 10701

Lewis Hoff, an individual
President of Bartizan

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## PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

---

National Business Systems, Inc. respectfully prays that a Writ of Certiorari issue to review the judgment entered by the Court of Appeals for the Seventh Circuit in this case.

## OPINIONS BELOW

The opinion of the District Court (App. B, 25a-63a) is reported at 546 F.Supp. 340. The opinion of the Court of Appeals on the merits (App. A, 1a-24a) is reported at 743 F.2d 1227. The order of the Court of Appeals denying "Appellants' Petition For Rehearing With Suggestion For Rehearing *En Banc*" (App. H, 75a-94a), appears at App. C, 64a-65a and the order of the Court of Appeals denying "Appellants Motion for Sanctions" (App. J, 114a) and "Appellants' Motion to Correct Errors" (App. I, 95a-113a) appears at App. D, 66a-68a.

## JURISDICTION

The judgment of the Court of Appeals is dated September 20, 1984. Petitioner's timely Petition For Rehearing With Suggestion For Rehearing *En Banc* was denied on January 24, 1985.

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

On February 1, 1985, the Court of Appeals granted appellants' motion to stay its mandate until March 12, 1985 to permit the filing of this Petition For a Writ of Certiorari.

## STATUTES AND RULES INVOLVED

The statutes and rules involved—35 U.S.C. §§ 102(b), 103, 112, 251 and 288; 37 C.F.R. § 1.56(a) and (d) and the American Bar Association Model Rule 3.3—are set forth in App. S, 219a.

## STATEMENT OF THE CASE

### A. The Subject Matter Involved

This litigation relates generally to the printing of information from an embossed plate, such as a plastic credit card. Most credit cards have three lines of embossing, one of which sets forth the cardholder's account number in a font which can be scanned mechanically by Optical Character Reading ("OCR") machines ("scanners").

Information from such cards is normally imprinted on carbon interleaved paper forms in conjunction with information imprinted from a separate embossed, metal "station plate". The embossing on the station plate identifies the establishment extending credit to the cardholder.

### B. Historical Background

In the late 1950's, Farrington Business Machines Company (Farrington) created an *OCR* "Processing System"

for oil company credit cards. Farrington developed (i) the OCR 7B font still in use today, (ii) a plastic card having a *plurality* of lines of embossing, only *one* of which—the account number line—was in OCR font, and (iii) the Farrington Model 833 and 845 imprinters which *simultaneously* imprinted with a *single* roller platen, on one stroke of the platen carriage, *all* of the plurality of lines of embossing, *including* the OCR line, from oil company credit cards and also all of the lines of embossing from a station plate (Bradford R. 905, l. 1-914, l. 14; Wasson, R. 99, ll. 19-25; R. 114, ll. 10-15). The imprinted document and credit card were removed after the left-to-right stroke of the platen carriage, and a different credit card and a new document were inserted and imprinted on the right-to-left or "opposite" stroke of the platen carriage (Bradford, R. 911, l. 1-914, l. 14). These imprints were readily scannable by OCR scanners.

In 1959, the American Bankers Association (ABA) adopted the Magnetic Ink Character Recognition (MICR) system utilizing E-13B font for mechanized check handling with MICR scanners. Plastic cards with a plurality of lines of embossing, only *one* of which (the account number) was in MICR 13B font, were utilized.

Differences in scanner function require MICR imprints to satisfy more rigorous criteria than OCR imprints (VanDerLinden, R. 981, l. 7-998, l. 18; R. 999, 1.25-1004, l. 6; 1007, ll. 3-8; 1008, l. 17-1010, l. 3; Bradford, R. 930, l. 24-931, l. 22).

In 1961, AM sought to participate in the new market created by ABA's adoption of MICR with *single* roller platen table top imprinters denominated Models 12-48-3 and 12-48-4 (PX-45; Wasson, R. 271, l. 4-272, l. 1). *Simultaneous* imprinting of adjacent lines of MICR and non-MICR embossing from the same plate with these single roller platen imprinters resulted in a MICR line

imprint of poor quality which was not scannable by MICR scanners (Wasson, R. 245, l. 1-247, l. 31).[1]

AM therefore designed a "double eccentric" platen having a narrow part and a wide part. The narrow platen part printed only the MICR line of embossing, in *isolation* from the other lines on the same card or plate, on one *pass* of the platen carriage. A scannable imprint of the MICR line was obtained in this way. The wide platen part printed all of the other lines of embossing on the same plate on a separate pass of the platen carriage.

Initially AM did not use this two part MICR platen in a table-top imprinter. Instead, in about 1962, AM offered to the banking industry its Model 1900 TP series of *console* machines—machines which stood alone on the floor—equipped with this two part MICR platen.

On April 25, 1963, AM filed the application for its '800 patent (copy in Appendix II) covering the Model 1900 TP console machine equipped with the two part MICR platen.[2]

Also in 1963, the two part MICR platen was substituted—with no change in model number—for the *one* piece platen which had failed to produce scannable MICR imprints in AM's 12-48-3 and 12-48-4 MICR imprinters.

*These Model 12-48-3 and 12-48-4 imprinters fitted with the two part MICR platen are the subject of the '120 patent.* These MICR imprinters were a commercial failure.

---

[1] The appellate opinion states that the AM imprinter described in the '120 patent was designed in response to a "demand [that] in part grew out of the American Banker's Associations decision to adopt 'magnetic ink character recognition symbols' (MICR symbols) for imprinting deposit slips, receipts and other forms" 743 F.2d at 1229-30; App. A, 3a.

[2] It is "uncontested" that the '800 patent "is prior art with respect to Johnson patent 3,272,120" (PX-122, Sec. VI, ¶ 7, p. 9).

### C. The '120 Patent

The application for the '120 patent (copy in Appendix II) was not filed until October 22, 1964—*more than a year* after these MICR imprinters were tested, found satisfactory, and released for factory production on September 20, 1963 (PX 12-0) to fill an order from the Association of American Railroads. These facts are material to the question of whether AM was barred from obtaining the '120 patent at all because of the "on sale" bar provisions of 35 U.S.C. § 102(b). AM's executives, patent solicitor Root, and the inventor Johnson, who at all relevant times were fully informed of these material facts, nevertheless proceeded to file and successfully prosecute the '120 patent application while suppressing the "on sale" bar information from the PTO. As the latter proceedings to reissue the '120 patent were to show, the '120 patent apparently would never have issued if AM had honored its duty to disclose this information to the PTO.

Claim 7 of the '120 patent defines a specific *process* for printing. This process as described in the patent specification pursuant to 35 U.S.C. § 112,[3] entails moving a carriage provided with oppositely functioning narrow and wide platen parts back and forth over an embossed

---

[3] 35 U.S.C. § 112 provides:

> The specification shall contain a *written description of the invention*, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same. . . .
>
> The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention. (emphasis added)

Claim 7 must be read in light of the specification. See, e.g., *United States v. Adams*, 383 U.S. 39, 40 (1966); *Envirotech Corp. v. Al George, Inc.*, 730 F.2d 753, 760 (Fed. Cir. 1984); *Raytheon Co. v. Roper Corp.*, 724 F.2d 951, 961 (Fed. Cir. 1983).

"printing device" having multiple adjacent lines of embossing, only one of which is in machine (MICR or OCR) font. The narrow platen part imprints the machine font line *in isolation* on one platen stroke and then the wide platen part imprints the rest of the embossing on the opposite stroke. Specifically, the patent specification states that the invention involves the use of an imprinter or data recorder:

> . . . provided with dual roller platens which are independently operative to imprint one group of characters with one of the platens when the platens are moved in a first direction across the form, and to imprint the other group of characters with the other platen when the platens are moved in the opposite direction across the form. *In particular one of the platens is arranged to come into printing relation with a single line only of MICR type and to roll therealong from end to end without reaching any adjacent line of type.* The uniformity of the pressure *thus* applied to the form set and embossed plate by the dual platen arrangement provides a clear, dense image of the MICR type on the form, which image is free of ragged outlines and has the degree of clarity and sharpness required for automatic reading. (Col. 2, ll. 32-46; emphasis added)

The dual or two part platen to which the specification refers is illustrated by Figure 3 of the '120 patent. The operation of the platen to print in isolation a machine font line CE from the card, illustrated in Figure 6, is described in the paragraph beginning in line 66 of Col. 5 and concluding in line 2 of Col. 6.

Claim 7 defines this operation as follows:

> 7. A method of making an impression on a form set
>
> [1] from an embossed printing device
>
> [2] which utilizes a carriage movable in opposite directions between a first and a second position and

[3] having a pair of roller platens rotatably supported thereon,

[4] rolling one of the platens in printing relation to one portion of the printing device

[5] with the other platen in non-printing relation to another portion of the printing device

[6] when the carriage is moved in one direction and

[7] rolling the other platen in printing relation to the other portion of the printing device

[8] with said one platen in non-printing relation to said one portion

[9] when the carriage is moved in the *opposite* direction. (Paragraphing and bracketed numbers added)

If claim 7 is to define the only method invention the patent specification describes in the manner required by § 112, the word "portion" as used in one of steps [4] or [5] must mean a *one line "portion"* of the embossing on the printing device. The District Court found on "undisputed" facts that each accused NBS imprinter has a "first platen roller [that] imprints all of the lines of embossing from a plastic credit card" 546 F.Supp. at 347, App. B, 29a.

### *AM's Two Finally Rejected Applications to Reissue the '120 Patent*

On April 27, 1978, AM filed application Serial No. 901,002 to reissue the '120 patent (PX-5A) pursuant to 35 U.S.C. § 251.[4] The stated purpose of the reissue application was to call the '800 patent (solicited by the same counsel Root and Pyle who solicited the original '120 patent) and many other items of prior art (PX-5A, Part 1, pp. 21-39) to the attention of the PTO Examiner for the

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[4] See 743 F.2d at 1230, App. A, 4a.

first time. AM did not, however, call the "on sale" bar information to the attention of the PTO.

After *ex parte* prosecution, the PTO indicated that a reissue patent might be granted (PX-5A, Part 2, p. 696) —but *rejected* original claim 2 as unpatentable for obviousness under 35 U.S.C. § 103 in view of AM's own prior art '800 patent. The PTO required claim 2 to be amended to avoid that rejection as a prerequisite to its grant of the reissue application.

On November 17, 1980—*before* AM's reissue patent was issued—NBS filed a "protest" asking the PTO Commissioner to reopen prosecution of the reissue application and to strike it from the PTO files for violation of the "duty of disclosure" set forth in 37 C.F.R. § 1.56 (PX-5A, Part 2, pp. 728-735).

The PTO Commissioner granted the NBS petition, reopened prosecution of the reissue application and requested the Primary Examiner's opinion on the 37 C.F.R. § 1.56 "duty of disclosure" issues. The Primary Examiner's ensuing opinion states:

> Regarding claim 2 of Johnson '120, the Gruver et al. ['800] patent, if available, would clearly have been material and would have been a most pertinent reference. This conclusion is borne out by the fact that Gruver et al. was applied against claim 2 during reissue prosecution under 35 U.S.C. 103 and in response thereto, the applicant extensively amended claim 2 in order to obtain allowance. (PX-5A, Part 3, p. 991).

See 743 F.2d at 1230; App. A, 5a.

Thereafter, AM abandoned its original reissue application Serial No. 901,002 and filed a "continuation" reissue application Serial No. 275,764 on June 22, 1981 (PX-5AA).

A second Protest filed by NBS on November 18, 1981 (PX-5AA, Tab 5) requested rejection of all claims in the

"continuation" reissue application under § 102(b)'s "on sale" bar based on information never disclosed by AM to the PTO but set forth in documents produced by AM and explained in Maul's deposition taken on October 26 and 27, 1981. On December 23, 1981 (PX-5AA, Tab 12; PX-5B2), the PTO ruled that *all* pending "claims 1-8 are rejected as being 'on sale' more than one year before the [October 22, 1964] filing date" of the '120 patent application.

In the same December 23, 1981 action, the PTO ruled that the AM documents upon which the "on sale" bar rejection was based "have been found to be 'material to the examination', within the meaning of 37 CFR 1.56(a) . . ." (p. 2). In response to that rejection, AM filed two declarations in the PTO, one of its employee Wasson, who later testified at the trial. This Wasson declaration (AX-58) contains a false statement that Wasson had personal knowledge of facts stated therein, all as pointed out by NBS in its response filed with the PTO Examiner. On April 6, 1982, the PTO Examiner made his rejection of all claims pending in the reissue application "final" (PX-5AA, Tab 30; PX-5B1). In doing so, the Examiner criticized the declarations, including Wasson's, filed by AM stating:

> The declarations are based purely upon conclusions drawn by the declarants, and in some parts do not appear to agree with facts on the face of the documents relied upon. (p. 4)

The Examiner also held that "all . . . parts of the protest [NBS' response with exhibits] have been found to be 'material to the examination', within the meaning of 37 CFR 1.56(a) . . ." (p. 2).

### D. The '777 Patent

The '777 patent relates to another form of an imprinter provided with a two part platen. It contains five

claims, all asserted by AM as infringed until shortly before trial. AM then attempted to "withdraw" claims 4 and 5 but was precluded from doing so by NBS's pending suit for a declaration of non-infringement and invalidity.

## PROCEEDINGS BEFORE THE DISTRICT COURT

The District Court denied each of the NBS claims based on alleged fraudulent or inequitable procurement of AM's patents. The Court invoked common law fraud criteria to impose upon NBS a heavy burden to prove by " 'clear, unequivocal and convincing' " evidence that there "has been a deliberate misrepresentation in the Patent Office *United States v. American Bell Telephone Company*, 167 U.S. 224, 251 (1897) . . ." (see 546 F.Supp. at 354; App. B, 43a).

On the issue of " '120 Fraud" the District Court simply ignored the NBS claim based upon the PTO Examiner's determination on reissue that claim 2 of that patent would not have issued but for AM's knowing suppression of the material prior art '800 patent reference. The District Court also ignored the NBS claim that the '120 patent was *prima facie* fraudulent by reason of the patent Examiner's "final" rejection on reissue of all '120 patent claims as invalidated by the "on sale" bar evidence which AM and its patent solicitors suppressed.

Without any reference to these contrary administrative rulings, the Court rejected "plaintiffs' charge of fraud for failure to disclose evidence of the alleged 'on sale' bar [because of] this Court's finding that plaintiff failed to carry his burden of proving 'on sale' bar" 546 F.Supp. at 355; App. B, 44a.

This ruling is particularly egregious because based, in part, on untrue testimony from Wasson knowingly given and knowingly elicited by AM's trial counsel. The '120 "on sale" bar issue involves AM's activities in Ohio in

1963, incident its offer for sale of the claim 7 imprinter. In his January, 1982 declaration (AX-58)—which the PTO Examiner criticized—Wasson swore falsely to personal knowledge which he did *not* have because he was then a salesman in Illinois, concerning AM's relevant 1963 activities in Ohio (R. 1506, l. 19-R. 1507, l. 5).

At trial, Wasson, *after admitting* that he *did not* have personal knowledge to which he swore in AX-58, was nevertheless asked by AM counsel to swear to it again—*which he* did.[5]

The District court was improperly influenced by this Wasson testimony. It rejected the NBS "on sale" bar defense on the ground that AM "rebutted plaintiffs' case by producing testimony from . . . witness Wasson" citing "(R 1505-1515)" which includes Wasson's reverification of AX-58. See 546 F.Supp. at 354; App. B, 42a.

NBS argued that claim 7 of the '120 patent was invalid in view of the commercial Model TP addressing machine which the District Court itself acknowledged as "prior art" 546 F.Supp. at 355; App. B, 44a. NBS relied upon Wasson's testimony that in this prior art commercial machine the two parts of the MICR platen were operated—just as claim 7 specifies—on *opposite* strokes of the platen carriage—exactly as Wasson testified in his deposition taken in related Canadian litigation. At trial, Wasson, on cross-examination, twice reaffirmed that his

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[5] This testimony states:

> Q [by AM counsel, Mr. Cook] Have you in the last few days reviewed this declaration [AX 58] and discovered any changes you would want to make in it?
>
> A No, sir.
>
> Q You stand by that declaration today just as you did when you signed it?
>
> A Yes, sir.
>
> Q In January '82?
>
> A Yes, sir. (R. 1513, l. 21-1514, l. 4).

Canadian testimony was "correct" (R. 260, l. 11-261, l. 7; R. 344, ll. 10-15).[6]

The District Court also failed to address this issue. It discussed the prior art machine only in the context of "'120 Fraud" and in that context rejected the NBS contention only "in light of this Court's finding that claim 7 of the '120 patent is non-obvious" 546 F.Supp. at 355; App. B, 44a.

NBS argued that, AM having taken advantage of a full and fair opportunity to litigate in the reissue proceedings, the PTO rulings invalidating the '120 patent must either be deemed presumptively correct or preclude AM from contending otherwise. The District Court addressed this issue only in the context of anticipation by the Cox patent under 35 U.S.C. § 102(b) and rejected on meaningless grounds the two final PTO determinations that claim 7 is invalid because anticipated under 35 U.S.C. § 102(b) by Cox. See 546 F.Supp. at 350, App. B, 34a-35a.[7]

The District Court held claims 1 to 3 of the '777 patent invalid for obviousness under § 103 on the basis of *AM's own* 3,566,007 and 3,577,917 patents solicited by the *same AM patent solicitors* Root and Pyle who also

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[6] The morning *after* his cross-examination, and *after* a conference with defendants' trial counsel and expert Maul, Wasson testified on redirect that he could not state with certainty that the Model 1900 TP and Model 1957 TP machines printed on opposite strokes "without seeing the machine" (R. 361, ll. 6-10; R. 367, ll. 1-24).

[7] A holding inconsistent with the Federal Circuit decision in *J.P. Stevens & Co. v. Lex Tex Ltd., Inc.*, 747 F.2d 1553 (1984):

> The district court, essentially ignor[ed] the PTO reissue proceeding . . . .
>
> Error resulted from a failure to give primary consideration to events involved in the PTO reissue proceeding . . . . [T]he result of a PTO proceeding that assesses patentability in light of information not originally disclosed is of strong probative value in determining whether the nondisclosed information would have been material. 747 F.2d at 1562.

solicited '777. The District Court nevertheless rejected the NBS claim that the '777 patent was fraudulently procured—again invoking common law fraud criteria—because of the perceived "absence of clear and convincing proof of 'wrongfulness, willfulness or bad faith'" (citations omitted) 546 F.Supp. 363, App. B, 61a.

The District Court rejected the NBS argument that claims 4 and 5 of the '777 patent were fraudulent on the face of the PTO record because all support for such claims had been cancelled by AM's patent solicitor Pyle before the claims were presented to the PTO, who did *not* inform the Examiner of this material fact. NBS also argued that the whole '777 patent is invalid by reason of AM's failure to disclaim claims 4 and 5 pursuant to 35 U.S.C. § 288. The District Court rejected that NBS contention in part because "claims 4 and 5 of the '777 patent are not in controversy in this case" (546 F.Supp. at 363; App. B, 62a)—a fact finding which is contradicted by paragraph 13 of the Court's own Judgment Order:

> 13. No plaintiff has infringed claims 4 or 5 of United States Letters Patent No. 3,763,777.

This incorrect finding upon which the court relied to reject the NBS claim that the '777 patent is fraudulent was apparently induced by the defendants' proposed fact 92 which falsely states:

> Claims 4 and 5 are not in controversy here because AM has never made a specific infringement charge under them . . .

Proceedings before the District Court were marred by aspects of AM's professional misconduct in addition to the suborned Wasson testimony regarding AX-58 and the misleading of the Court by AM's untrue proposed fact 92. Among other things, AM and its trial counsel also introduced incredible testimony from their witness Maul, made and relied upon unworthy open court demonstrations involving a maladjusted "prior art" imprinter

to show the unobviousness of the claim 7 invention, submitted several other incorrect and misleading proposed fact findings by which the trial judge, as his opinion shows on its face, was misled, and unduly multiplied and prolonged the pretrial and trial proceedings.

(i) AM's infringement charge based on claim 12 of the '800 patent was not *bona fide* and not asserted in good faith. Defendants' expert Maul, on at least three different occasions, testified falsely that the platen roller of the accused NBS imprinters which—as the record shows on agreed facts—rolls along at least *three* rows of embossed characters on a plastic card, is "designed and aligned to roll along *only* one row . . ." and hence that the NBS imprinters literally infringe claim 12 (R 558, ll. 7-13; 18-23). The District Court found this testimony not to be credible (". . . even if [AM's] expert's testimony were credible, which this Court does not find", 546 F. Supp. at 356; App. B, 47a)—noting that "Maul was unable to point to any passage in the '800 patent specifications which supports his testimony . . ." (546 F.Supp. at 356; App. B, 46a). If this spurious testimony is not somehow conveniently excused as alleged "opinion", it profanes Maul's oath. The fact that the trial judge was not misled by it does not temper the culpability of AM, its counsel or Maul.

(ii) AM, on the last day of the trial, presented through the same witness Maul an open court demonstration purporting to compare the performance of a prior art imprinter (i.e., an imprinter which prints in one platen stroke all three lines of embossing including the OCR line from a credit card and also the embossing from a station plate) with an allegedly infringing NBS imprinter which imprints *all* of the lines of embossing from a credit card on one stroke and all of the lines of embossing from a station plate on a separate stroke of the platen.

NBS proved, through its witness Milano, that the prior art imprinter used by Maul and AM counsel in this dem-

onstration yielded a poor imprint *because it was seriously out of adjustment*—as AM's expert of 20 years experience in the art surely knew when the open court demonstration was made. Nevertheless, AM urged in its post-trial briefs and before the Seventh Circuit that this spurious demonstration evidences the unexpected merit of the claim 7 invention. See the NBS sanctions memorandum (App. K, 115a), Item 6, page 16 (129a), *et. seq.*

(iii) Plaintiffs' (NBS's) Supplemental Proposed Fact Findings 245-249 (App. R, 191a-218a) demonstrate that a substantial number of AM's proposed fact findings are simply inconsistent with the record or invite inferences and make fact representations which the record contradicts or does not support. Not one of these proposed NBS supplemental findings has ever been challenged by AM. Each must therefore be considered correct. So considered, the proposed findings demonstrate AM's lack of candor, if not an outright scheme to mislead the District Court, in violation of the acceptable standards for professional conduct. See, e.g., ABA Model Code 3.3.

The full extent to which the District Court may have been misled will never be known. It is clear on the very face of its opinion that the District Court *was* misled by *some* of them. See the discussion, *supra*, p. 13, of AM's fact 92 and its impact on the NBS claim that the '777 patent is fraudulent.

Another instance is found in the misrepresentation in AM's proposed fact finding 38S which states:

> NBS's final contention is that the Johnson ['120] invention is directed only to imprinting single lines of MICR characters, as described and illustrated, and that the Johnson patent therefore has no applicability to imprinting OCR characters . . .

Notwithstanding the fact that plaintiffs' supplemental proposed fact finding 247(c) (App. R, 205a) states "plaintiffs have not contended . . . claim 7 of the '120 patent is limited to the imprinting of MICR charac-

ters . . .", the District Court nevertheless adopted AM's untrue finding 38S to hold the '120 patent enforceable incorrectly stating in its opinion that "plaintiffs' claim of false attribution of inventorship [with regard to the '120 patent] is rejected" because it "is conditioned on limiting the '120 invention to printing only one row of MICR characters. This Court has found, however, that the '120 invention should not be so limited" 546 F.Supp. at 355; App. B, 44a.

The trial would never have consumed twelve days of trial time and plaintiffs' trial preparation would have been reduced if defendants and their attorneys had abstained from

(a) maintaining their infringement case posited on patent 3,138,091 until the eve of trial;

(b) maintaining their meritless infringement suit based on the '800 patent on claims 1-11, i.e., claims *other* than claim 12, until virtually the eve of trial;

(c) opposing plaintiffs' motion for partial summary judgment of non-infringement of claim 12 of the '800 patent on grounds of alleged, but non-existent, disputed material facts;

(d) maintaining their infringement suit based on claim 12 at all; instead by not dropping that meritless charge as they should have;

(e) maintaining their infringement suit on claims 1-6 of the '120 patent—i.e., claims other than claim 7—until virtually the eve of trial;

(f) maintaining their infringement suit on claims 4 and 5 of the '777 patent—i.e., claims other than 1-3—until after the close of discovery on February 15, 1982 and indeed virtually until the eve of trial;

(g) maintaining their infringement suit on claims 4 and 5 of the '777 patent at all notwithstanding the fact—glaring on the face of the PTO record—that claims 4 and

5 are "invalid" and not "without deceptive intention" (35 U.S.C. § 288);

(h) filing proposed findings of fact which mischaracterize the evidence and so requiring extensive rebuttal to set the record straight (see P.Facts 245-249, App. R, 191a-218a).

The District Court opinion is further flawed because it totally ignores and does not rule upon, among other things, the NBS claim that AM's patents are unenforceable in equity and for costs and attorneys' fees based upon the professional misconduct of AM's counsel before it.

## PROCEEDINGS BEFORE THE SEVENTH CIRCUIT

The Court of Appeals ignored the NBS argument citing *Herman & MacLean v. Huddleston*, 459 U.S. 375 (1983) that fraudulent procurement of AM's patents need be proved only by a preponderance of the evidence and not by clear and convincing evidence.[8] Instead, to affirm, the District Court found "that NBS had failed to satisfy its heavy burden of proving deliberate misrepresentations by 'clear, unequivocal and convincing evidence.' 546 F.Supp. at 354-55 (citing *United States v. American Bell Tel. Co.*, 167 U.S. 224, 251, 17 S.Ct. 809, 814, 42 L.Ed. 144 (1897) . . ." 743 F.2d at 1239; App. A, 23a.[9]

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[8] NBS so contended by Seventh Circuit Rule 11 letter, at oral argument and in its petition for rehearing (App. H, 75a-94a). AM's Answer (App. O, 164a-179a) to the rehearing petition discusses the issue at 178a-179a.

[9] The Seventh Circuit stated that:

> . . . particularly absent is evidence that AM knew or should have known of the materality of the omitted prior art at the time of application. *Id.*

This statement is surprising. The documentary "on sale" bar evidence that the '120 patent is invalid shows on its face that

The Appellate Court sustained the District Court's holding of infringement by equivalents—albeit that ruling is incorrectly premised on a reading of claim 7 "alone" and independently of the patent specification *and* as construed not in light of the specification, but upon the basis of the testimony of AM's witness Maul. See 743 F.2d at 1237-1238; App. A, 20a-22a.

For its issue "5", the NBS appeal brief called attention to the fact that the dispositive issue of AM's professional misconduct before it was ignored by the District Court. NBS suggested that the Court of Appeals should either decide the issue or remand. The Court of Appeals did neither.

AM retained different counsel for the appeal—who proceeded with the same disappointing lack of candor as its trial counsel.[10]

Typically:

(i) Concerning the preclusive effect of the PTO decision on reissue finally rejecting the '120 patent claims under 35 U.S.C. § 102(b)'s "on sale" bar provision and as anticipated by the Cox reference, AM's brief at page 21 represents falsely that

> [T]he trial court in this action had before it a far more comprehensive and complete record than that before the Examiner in the reissue proceedings.

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AM's inventor and its patent solicitors were timely aware of it. The District Court invalidated the '777 patent on the basis of two of AM's own patents solicited by the same patent attorneys who also solicited '777.

[10] See the "Memorandum in Support of Appellants' Motion for Sanctions" (App. K, 115a-139a) in which Items 1-9 detail the several ways in which AM's brief lacks candor. AM's opposition (App. L, 140a-147a) fails to deal on its merits with any of these nine improprieties—but tacitly concedes them all arguing only that NBS had in its reply brief called attention to some of the same matters.

> The trial court heard live testimony from expert witnesses. . . . . It observed . . . in-court demonstrations. . . .

Although the District Court did not so find and the NBS reply brief demonstrates the contrary,[11] the Court of Appeals was nevertheless misled and so mimicked AM's deliberate misrepresentation in the guise of an unauthorized *de novo* appellate fact finding to hold:

> Here, special deference to the Patent Office decision is particularly inappropriate because . . . the district court [had] the benefit of extensive proof by expert testimony and demonstrative evidence. . . . 743 F.2d at 1232; App. A, 9a.

(ii) AM's appeal brief misquotes from the specification of the '120 patent by omitting passages which undercut its infringement position, i.e., that claim 7 is *not* limited (as NBS contends) to printing a single line only of embossing, in isolation, from other adjacent lines of embossing on a credit card to obtain a clear imprint of the single line.

Specifically:

AM's brief, page 3 quotes from the '120 patent, Col. 2, line 29 through a portion of line 38. It then replaces the following sentence by ellipsis:

> *In particular one of the platens is arranged to come into printing relation with a single line only of MICR type and to roll therealong from end to end*

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[11] The NBS Reply Brief, p. 2, n. 5 states in part:

> Defendants' bold assertion that "the trial court . . . had before it a far more comprehensive and complete record than that before the Examiner in the reissue proceedings" (D.Br. 21), is unsupported. Defendants do not controvert that they "relied upon essentially the same evidence and arguments" (P.Br. 16) in both tribunals.

*without reaching any adjacent line of type.*[12] (Col. 2, ll. 38-41; emphasis added.)

The *NBS* infringement position is bottomed on the rule of law that claim 7 *must* be read in light of the '120 specification (see n. 3, *supra*, p. 5) and that, when so read, the claim requires the isolated imprinting, on one stroke of the imprinter carriage, of only a single line of embossing, *just as the passages omitted from the AM brief clearly state.*

The Court of Appeals was misled by AM's distortion of the '120 patent specification. Its opinion does *not even mention* the distortion—much less the NBS infringement position based on the portions of the '120 specification cropped from the quotations in AM's brief.

See the NBS sanctions memorandum, App. K, Item 1, pp. 1, *et seq* (115a).

The Court of Appeals, in a ruling inconsistent with its own earlier, published opinions, see, e.g., *McCandless v. The Great Atlantic and Pacific Tea Co., Inc.*, 697 F.2d 198, 202 (7 Cir. 1983) and with opinions from the Federal Circuit, see *Amstar Corp. v. Envirotech Corp.*, 730 F.2d 1476, 1485-1486 (Fed. Cir. 1984), simply "denied" the sanctions motion (App. D, 66a) and adhered to the denial on reconsideration (App. C, 65a).

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[12] At page 3, AM's appeal brief similarly distorts the '120 patent by quoting from Col. 5, line 66 through a portion of line 69. It then replaces the following statement with ellipsis:

> The imprinting of these data [i.e. "embossed data such as TC on plate P, as well as from the station plate S and the dater"] takes place when the platen carriage is moved from left to right as viewed in FIG. 1, during which time [*narrow*] platen 88 is raised. The return stroke of the platen carriage *raises* [*wide*] platen roller 86 out of printing engagement with the form and the printing devices and, at the same time, *lowers* [*narrow*] platen roller 88 into printing engagement with the form to effect [*isolated*] imprinting *from the embossed MICR characters on plate P.* (Col. 5, l. 69-Col. 6, l. 2; emphasis added.)

Actually, the appellate opinion is so replete with errors of fact and law as to substantially evidence a miscarriage of justice. The NBS motion to correct errors (App. I, 95a-113a) was filed in an effort to rectify this situation. AM's Court-ordered answer (App. N, 150a-163a) for the most part acknowledges the errors. The Court of Appeals made no substantive corrections in its flawed opinion (App. E, 69a-70a).

## REASONS FOR GRANTING THE PETITION

### I.

"'[F]raud in the PTO' . . . is appearing in nearly every patent suit, and is cluttering up the patent system".[13] Statistics provided by the PTO show that in January 1982, 78% of protested reissue applications pending before that administrative agency, which were also in litigation, involved issues of fraud or lack of candor. Less than two years later, in December 1982, that figure had risen to 84%—more than four out of every five protested reissue applications.

Constrained by 35 U.S.C. § 122, "[t]he Patent Office is often obliged to reach its decision in an *ex parte* proceeding",[14] thus imposing a concomitant duty on patent applicants to report all material facts to the agency. See, e.g., ABA Model Code Rule 3.3(d).

To insure compliance with that rigorous *ex parte* conduct standard, 37 C.F.R. § 1.56(a) imposes a duty upon persons dealing with it to disclose to the PTO "information they are aware of which is material to the examination of the application". The rule then goes on to state "[s]uch information is material where there is a substantial likelihood that a reasonable examiner would con-

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[13] *Kimberly-Clark v. Johnson & Johnson*, 745 F.2d 1437, 1454-1455 (Fed. Cir. 1984).

[14] *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

sider it important in deciding whether to allow the application to issue as a patent". This materiality definition, as the *Manual of Patent Examining Procedure* § 2001.05 explains, "paraphrases the definition of materiality used by the Supreme Court in TSC Industries v. Northway, 426 U.S. 438 (1976)"—a securities fraud case. However, 37 C.F.R. § 1.56(d) departs from securities fraud law to provide that violation of the duty to disclose information to the PTO must be proven by "clear and convincing evidence".

The same "clear and convincing evidence" standard is applied by the Federal Circuit.[15] It was also applied both by the district court and by the Court of Appeals in this case, citing as precedent *United States v. American Bell Telephone Co.*, 167 U.S. 224 (1897).

In *Herman & MacLean v. Huddleston*, 459 U.S. 375 (1983), the Court granted certiorari to determine whether persons seeking recovery under the Securities Exchange Act of 1934 "must prove their cause of action by clear and convincing evidence, rather than by a preponderance of the evidence". 459 U.S. at 377. The Court "decline[d] to depart from the preponderance-of-the-evidence standard generally applicable in civil actions". 459 U.S. at 390.

The *Herman & MacLean* opinion explains that the standard of proof " 'serves to allocate the risk of error between the litigants and to indicate the relative importance attached to the ultimate decision' ". 459 U.S. at 389.

Clear and convincing evidence is required where at stake are "particularly important individual interests or rights", e.g., termination of parental rights, involuntary

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[15] *Orthopedic Equipment Co. v. All Orthopedic Appliances*, 707 F.2d 1376, 1383 (Fed. Cir. 1983); *Atlas Power Co. v. E. I. duPont deNemours & Co.*, 750 F.2d 1569, 1577-78 (Fed. Cir. 1984).

commitment and deportation. 459 U.S. at 389. Absent such "particularly important individual interests or rights", the preponderance of the evidence standard suffices because any other standard expresses a preference for one side's interest. 459 U.S. at 390.

En route to its decision, the Court pointed out that "[a] higher standard of proof apparently arose in courts of equity" and "subsequently received wide acceptance in equity proceedings to set aside presumptively valid written instruments on account of fraud. See United States v. American Bell Telephone Co., 167 US 224, 240-241 . . . (1897)". 429 U.S. at 388, n. 27. The Court cautions that "[r]eference to common-law practices can be misleading, however, since the historical considerations underlying the imposition of a higher standard of proof have questionable pertinence here". " '[T]he typical fact situation in which the classic tort of misrepresentation and deceit evolved was light years away from the world of commercial transactions to which Rule 10b-5 is applicable' ". 459 U.S. at 388.

The same admonition fits patent fraud cases precisely, and so disqualifies common law fraud precedent, such as *American Bell Telephone*, in such proceedings.

The *Herman & MacLean* opinion also points out that "the antifraud provisions of the securities laws are not coextensive with common-law doctrines of fraud". 459 U.S. at 388-9. Again, the antifraud decisions in patent cases are precisely parallel. The Federal Circuit has affirmatively recognized that

> Conduct before the PTO that may render a patent unenforceable is broader than "common law fraud". *Norton v. Curtiss*, 433 F.2d at 793, 167 USPQ at 543-44. It includes failure to disclose material information, or submission of false material information, with an intent to mislead. Because the "fraud" label can be confused with other forms of conduct,

> this opinion avoids that label and uses "inequitable conduct" as a more accurate description of the proscribed activity, it being understood that the term encompasses affirmative acts of commission, *e.g.*, submission of false information, as well as omission, *e.g.*, failure to disclose material information. *J. P. Stevens & Co., Inc. v. Lex Tex Ltd., Inc.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984).

The *Herman & MacLean* opinion makes the point that "the difficulty of proving the defendant's state of mind supports a lower standard of proof". 459 U.S. at 390, n. 30.

The same consideration applies to patent fraud cases, as the Federal Circuit once more agrees, albeit adhering to its "clear and convincing evidence" language. Inequitable conduct or "fraud" in the PTO "requires proof of a threshold intent. That intent need not be proven with direct evidence. *Hycor*, 740 F.2d at 1540. . . . It may be proven by showing acts the natural consequences of which are presumably intended by the actor". *J. P. Stevens, supra*, 747 F.2d at 1560.

In *Herman & MacLean*, the Court found that

> The balance of interests . . . warrants the use of the preponderance standard. On the one hand, the defendants face the risk of opprobrium. . . . On the other hand, the interests of plaintiffs in such suits are significant. Defrauded investors are among the very individuals Congress sought to protect in the securities laws. If they prove that it is more likely than not that they were defrauded, they should recover. 459 U.S. at 390.

The Federal Circuit in *Thompson-Hayward Chemical Co. v. Rohm and Haas Co.*, 745 F.2d 27, 32-33 (1984) has balanced the "strong public interest in not countenancing fraud in the PTO" against the "public interest in an efficient and effective administration of justice" and ruled that the former is paramount and must prevail.

Clearly, the interests of persons accused of infringing fraudulent patents—like the interests of "defrauded investors"—are "significant"; indeed "paramount" over the interests of a fraudulent patentee. Such persons, like the defrauded investors in *Herman & MacLean*, are the very members of the public the patent laws and the PTO antifraud rules were designed to protect. They should recover if they prove that it is more likely than not that they will prevail on the patent fraud issues.

For these reasons, inequitable conduct, rendering a United States patent unenforceable, is appropriately proved by the preponderance of the evidence and does not require proof by clear and convincing evidence.

Had the Seventh Circuit or the district court applied that standard, instead of an incorrect "clear and convincing evidence" standard, a conclusion that AM's '120 and '777 patents are unenforceable would have been compelled.

## II.

This case is the culmination of AM's 20-year disregard of its duty to be candid with the PTO and the Courts. The shocking thing about it is not the immensity of AM's scheme to enforce its unworthy patents, nor the chutzpah manifest in that scheme's conception and implementation. Rather, it is the fact that the both lower Courts have not only consistently condoned it—these Courts have flatly refused even to discuss, much less rule on, the many improprieties affirmatively brought to their attention. It is only the PTO that has blown the whistle on AM and its counsel by its repeated reissue rulings not only that all of the claims of the '120 patent are unpatentable, but that AM and its counsel withheld from the Examiner, AM's *own* prior art information dispositively material to the grant of the '120 patent in the first place. Ironically, those PTO rulings have been devitalized by the District and Appellate Courts—and in significant

part on the basis of incorrect representations in AM's briefs.

The judicial process has for many years been seriously compromised by an acknowledged breakdown in lawyer discipline—a breakdown evidenced in this case at every level from the administrative agency to the Seventh Circuit.

In 1970 the Clark Committee "[a]fter three years of studying lawyer discipline throughout the country, . . . report[ed] the existence of a scandalous situation that requires the immediate attention of the profession" (p. 1).[16] It attributes this situation in part to the "reluctance" (p. 168) of judges to report disciplinary breaches and impose appropriate sanctions.

On February 12, 1984, the Chief Justice said that "any fair-minded examination of the whole picture today will reveal that what we have done falls far short of what is needed. . . . The 1970 Clark Report on lawyer discipline must be brought up-to-date because more vigorous programs are needed if we are to have the confidence of the public." [17]

But to no avail. "The ethical rules and admonitions governing the legal profession in the United States are in a serious state of disarray and inadequacy." Disciplinary authorities are "in confusion and without adequate structure of ethics and professionalism".[18]

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[16] "Problems and Recommendations in Disciplinary Enforcement", American Bar Association Special Committee on Evaluation of Disciplinary Enforcement (June, 1970).

[17] Remarks of Warren E. Burger, Chief Justice of the United States at the Midyear Meeting, American Bar Association (February 12, 1984).

[18] Nashtol, "The Lawyers Allegiance: Priorities Regarding Confidentiality", 41 Wash. & Lee L. Rev. 421.

The present lax approach to the judicial enforcement of professional conduct standards [19] has yielded a largely meaningless morass of published and unpublished decisions. These decisions reflect not only inter-circuit conflicts, but more pointedly intra-circuit conflicts obscured, as in this case, by summary orders with no reasoned explanation of why unequivocally evidenced professional misconduct is condoned.

It is clear from the fate worked upon the proposals of the "American Bar Association Committee on Evaluation of Professional Standards" (the "Kutak Committee") that the courts can no longer complacently depend on lawyer self-discipline to insure the integrity of the rule of law. "For want of a system adequate to define and implement acceptable standards of ethics and professional responsibility, the legal profession is without competence for self-regulation and, accordingly, may not satisfy the accepted definition of a profession".[20] The time is overdue for the judiciary to shoulder its own ultimate responsibility to put a stop to the now pervasive abuse of process.[21]

These unacceptable circumstances cry out for an authoritative opinion from this Court defining the rigor with which the Federal Courts must enforce the disciplinary rules and making it clear that violations evidenced by a preponderance of the evidence will result in significant sanctions.

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[19] See, e.g., ABA Model Rule 3.3, DR 7-102(A)(3), DR 7-102 (A)(5) and DR 7-106(B)(1).

[20] Nashtol, *supra*, n. 18, at 424.

[21] When zealous advocacy is unconcerned with the certainty of enforcement of judicial sanctions then abuse of process is inevitable. Whether the courts are judged on what they say or what they do when confronted with the reality of abuse of process, the judgment, to these eyes, reads as an indictment. *Dayan v. McDonald's Corp.*, No. 70CH 2258, Slip Op. pp. 16-17 (Circuit Court, Cook County, Illinois)

This case affords an excellent vehicle for the rendering of such an opinion.

III.

Having twice intervened in the two reissue proceedings and twice satisfied the PTO that claim 7 of the '120 patent should never have been allowed and that AM violated the duty of disclosure (37 C.F.R. § 1.56(a)) by suppressing material information from the Examiner, NBS should not then have been forced to a full trial on the merits concerning the '120 patent's validity and unenforceability.

AM enjoyed a full and fair opportunity to litigate in the PTO. Its contrary representation, by which the court of appeals was misled (see the discussion *supra*, p. 19), is unsupported. Moreover, AM had every incentive to present its most compelling evidence in full to induce reissue of '120, well knowing that a reissue applicant enjoys substantial procedural advantages over a protestor, such as NBS was before the PTO Examiner. See *Mooney v. Brunswick Corp.*, 663 F.2d 724, 730-32 (7 Cir. 1981).

AM argued primarily that the PTO rulings should be disregarded because not "final". However, each court below posited, on other grounds, its refusal to give any weight to the PTO determinations. See 546 F.Supp. at 350 (App. B, 35a); 743 F.2d 1231-1232 (App. A, 7a-9a). The court of appeals did not adopt the district court's reasoning. It refused to give "special deference to the Patent Office decision . . . because the patent had been in existence for over 11 years" [22] and because of its mistaken belief, induced by AM's mischaracterization of the record, that the district court had the benefit of more "extensive proof" than the PTO. 743 F.2d at 1232 (App. A, 9a).

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[22] Overlooking the fact that the '120 patent should never have issued in the first place, as the reissue proceedings so convincingly demonstrated.

This ruling conflicts squarely with the authoritative and well-reasoned decisions of the Federal Circuit.[23] Moreover, it clashes with this Court's consistent application of the doctrines of issue preclusion and collateral estoppel in furtherance of judicial and administrative efficiency, to conserve the resources of public and private parties alike and to enforce repose upon controversies at the earliest feasible time.

In particular, where an administrative agency has already afforded combatants a full opportunity to be heard as to contested issues of fact in a hearing that comports with due process, as occurred in this case before the PTO, this Court has encouraged the lower courts to accord collateral estoppel effect to the resulting fact findings in subsequent judicial proceedings involving at least part of the same fact questions. See, e.g., *Kremer v. Chemical Construction Corp.*, 456 U.S. 461 (1982); *Allen v. McCurry*, 449 U.S. 90 (1980); *Montana v. United States*, 440 U.S. 147 (1979); *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1979); *United States v. Carlo Bianchi and Co.*, 373 U.S. 709 (1963); *United States v. Utah Construction Co.*, 384 U.S. 394 (1966).

The federal courts should never have been burdened with AM's infringement claim based on its '120 patent. The presumption of correctness that routinely attends administrative decisions should have been applied. AM should have been precluded from introducing any "new" evidence before the district court, except on a showing of good cause why such evidence was not submitted to the PTO for its consideration on reissue.[24] AM could not possibly have made such a showing because it had

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[23] See *J. P. Stevens Co.*, quoted *supra*, n. 7, p. 12.

[24] See *Velsicol Chemical Corp. v. Monsanto*, 579 F.2d 1038 (7 Cir. 1978); *Pihor S.A. v. CTS Corp.*, 664 F.2d 122 (7 Cir. 1981); *Kirschke v. Lamar*, 426 F.2d 870 (8 Cir. 1970).

full access to the discovery process in the concurrently-pending infringement suit which had yielded the "on sale" bar evidence fatal to the validity and enforceability of the '120 patent.

## CONCLUSION

The Petition should be granted.

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